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TAX PLANNING IN LOW INCOME YEARS

Often farmers might feel there is no need to do tax planning in years when there is no profit. According to the Nebraska Farm Business Association, in many ways, it's more important to do tax planning in years like this year compared to a higher income year.

One of the key points is the Federal Schedule F form. It is important that Schedule F losses are avoided if possible. A loss on the Schedule F typically means that income could have been recognized free from self-employment taxes. Since the self-employment tax is 15.3%, it is something that should be managed whenever possible. If your strategy is to carryover a large net operating loss (NOL) into the next tax year, you might be surprised to see it costs you more in the end on taxes compared to another approach.

The easiest way to manage this is to sell some grain or livestock or reduce expenses to show more income on the tax form. If selling commodities by December 1st is not the best marketing choice, or you need to take advantage of fall seed discount prices, there are some other ways for consideration. Have your tax accountant calculate how much the market for grain would have to improve to make it worth hanging onto the crop. You might be surprised. There is one example in the October/November Farm Business Association Newsletter where the increase in price would have to be 33 cents per bushel. Each farm situation would be different. The link is at: http://ow.ly/qLi4305R4iW

Some other ways to avoid a Schedule F loss is to take advantage of CCC loans or contract elections. CCC loans can generate income without losing control of the crop via the Farm Service Agency. The loan can be elected to be treated as farm income on the tax return. So for the price of some paperwork and patience, income can be brought into a loss year and you can sell the crop when you want to.

Another way to generate income is a deferred price contract. A true deferred price contract will be written in language that the contract is an installment agreement. This is where the farmer agrees to receive payment at a later date (often after the first of the year). In this manner you can recognize the income in the year the agreement was made instead of when payment is received. Make sure and keep good records in this situation so the income isn't taxed.

According to the Nebraska Farm Business Association, there are other non-farm income ways income can be generated to avoid a negative Schedule F and recognized free from income taxes. These strategies include rolling over a traditional IRA into a Roth IRA, liquidating non-farm investments with profit (examples would be stocks or bonds) and selling equipment instead of trading equipment.

If you don't understand why it is important to avoid Schedule F losses, use this as a discussion piece with your tax advisor now and hopefully you already have. As you can see, farming today requires a good relationship with a CPA, tax accountant or membership with the Nebraska Farm Business Association.

The Nebraska Farm Business, Inc. started in 1976, part of Nebraska Extension, the University of Nebraska-Lincoln. In 2002, they moved to a new location in Lincoln; still working with the University to gather data and other information on farming operations and today they continue to work with producers from all across the state, providing financial and management needs. Other offices in Southeast Nebraska include Auburn, Beatrice and Hebron.

For more information go to: http://www.nfbi.net/

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